

Message Text

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ACTION EUR-08

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INFO AMCONSUL OPORTO IMMEDIATE

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 5177

LIMDIS

PASS TREASURY FOR SYVRUD

OPORTO FOR AMBASSADOR CARLUCCI

E.O. 11652: GDS
TAGS: EFIN, PO
SUBJ: FINANCIAL ASSISTANCE FOR PORTUGAL

REF: LISBON 5089

SUMMARY: MINISTER OF FINANCE AND CENTRAL BANK GOVERNOR MET WITH ME URGENTLY AFTERNOON JULY 6 TO DISCUSS SERIOUSLY DETERIORATING RESERVE SITUATION. AVAILABLE RESERVES DOWN TO \$60 MILLION AND DEFAULT IS REAL POSSIBILITY. OFFICIALS SUGGEST POSSIBLE FED SWAP ARRANGEMENT OF \$250 MILLION FOR THREE MONTHS TO AVOID POSSIBLE POLITICAL AND ECONOMIC COLLAPSE. I URGE STRONGLY THAT DEPARTMENT SEEK MEANS TO ASSIST, ESPECIALLY IN VIEW OF REQUEST BY GOP TO VP MONDALE AND IN VIEW OF RECENT VOTE OF CONFIDENCE IN PORTUGAL BY OECD COUNTRIES AND VENEZUELA. END SUMMARY.

1. MINISTER OF FINANCE MEDINA CARREIRA AND BANK OF PORTUGAL
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GOVERNOR SILVA LOPES CHARTERED PLANE TO MEET URGENTLY WITH ME IN NORTHERN PORTUGAL ON JULY 6 (WHERE I WAS ON 4TH JULY OFFICIAL TRIP) TO DISCUSS GRAVE FOREIGN EXCHANGE RESERVE POSITION. GOP OFFICIALS MADE APPEAL FOR US ASSISTANCE TO ALLEVIATE SITUATION.

2. ACCORDING GOP OFFICIALS, RESERVE POSITION IS AS FOLLOWS:

AS OF JULY 5, BANK OF PORTUGAL HAD \$60.9 MILLION AVAILABLE IN FOREIGN EXCHANGE IN ADDITION TO ONE CREDIT LINE OF \$25 MILLION. THIS CREDIT LINE WILL BE UTILIZED TO MAKE PAYMENT ON JULY 11. BANK OF PORTUGAL HAS LOST \$30 MILLION SINCE JULY 1 AND THIS PACE EXPECTED TO CONTINUE THROUGH JULY. PRINCIPAL CAUSES ARE PAYMENTS OF SHORT TERM (6 MONTH) TRADE CREDITS CONTRACTED DURING HEAVY IMPORT MONTH OF DECEMBER 1976 AND CONTINUED FLIGHT OF CAPITAL AND SPECULATION IN EXPECTATION OF ANOTHER DEVALUATION. DEVALUATION RUMORS CONTINUE TO BE NOURISHED BY PRESS. HEAVY OUTFLOW OCCURRED IN JUNE IN SPITE OF SATISFACTORY EARNINGS FROM TOURISM AND IMMIGRATION ARRIVALS.

3. BANK OF PORTUGAL ESTIMATES OF MONTHLY DEFICITS HAVE BEEN LOW DUE TO DEFICIENT STATISTICAL SERVICE AND DIFFICULTY IN ESTIMATING SHORT-TERM TRADE CREDITS (WHICH DO NOT HAVE TO BE REGISTERED WITH BANK) IN ADDITION TO UNEXPECTED ATTACK AGAINST ESCUDO.

4. GOP MAKING EVERY EFFORT TO OBTAIN SHORT-TERM LIQUIDITY.
(A) SILVA LOPES VISITED BIS IN BASEL ON JULY 4 TO REQUEST SHORT-TERM LOAN. REQUEST WILL BE DISCUSSED JULY 11 BY CENTRAL BANKS. SILVA LOPES REPORTS THAT AT BEST PORTUGAL WILL GET \$100 MILLION AND EVEN THAT IS "VERY DOUBTFUL."

(B) BANK OF PORTUGAL HAS INSTRUCTIONS TO ACCELERATE GOLD SALES TO AS MUCH AS MARKET WILL BEAR. GOP HOPES MONTHLY SALES CAN REACH \$50 MILLION BUT EVEN THIS WILL NOT SOLVE SHORT-TERM CONFIDENTIAL

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LIQUIDITY SHORTAGE.

(C) GOP HAS ASCERTAINED THAT NONE OF BILATERAL LOANS AGREED UPON AT JUNE 22 MEETING CAN BE DISBURSED FAST ENOUGH (SEE REFTEL).

5. GOP OFFICIALS ESTIMATE SHORT-TERM (3 MONTH) REQUIREMENT IS \$250 MILLION -- \$100 MILLION TO RESTORE WORKING BALANCES AND \$150 MILLION TO FINANCE OUTFLOW UNTIL OCTOBER. OFFICIALS SUGGESTED POSSIBLE \$250 MILLION CURRENCY SWAP FOR 3 MONTHS WITH US FEDERAL RESERVE BANK.

6. GOP WILL CONTINUE TO TAKE ECONOMIC MEASURES NECESSARY FOR BALANCE OF PAYMENTS TURN AROUND. REVISED BUDGET JUST APPROVED BY ASSEMBLY KEEPS BUDGET DEFICIT AT ORIGINAL LEVEL. FOREIGN INVESTMENT CODE HAS BEEN LIBERALIZED BY COUNCIL OF MINISTERS AND PROGRESS BEING MADE ON RESOLUTION OF INVESTMENT DISPUTES (ESPECIALLY ITT). GOP CONTINUES TO PUSH FOR QUICK PASSAGE ON ALL IMPORTANT LEGISLATIVE BILLS INCLUDING AGRARIAN REFORM, INDEMNIFICATION AND WORKER CONTROL. INDICATION OF DEGREE OF BELT-TIGHTENING IS MARKED DROP IN CONSUMPTION AND REAL WAGES IN LAST SIX MONTHS. ADDITIONALLY, MINISTERS WILL MEET WITH SOARES NIGHT OF JULY 6 TO DEVELOP NEW, TOUGH MEASURES. THESE WILL BE PRESENTED TO PRESIDENT ON JULY 8. UNFORTUNATELY, MOST MEASURES

WILL NOT BE ABLE SHOW RESULTS OVER NEXT SEVERAL WEEKS WHEN LIQUIDITY CRUNCH WILL BE SEVEREST.

7. OFFICIALS STATED THAT IF NO EXTERNAL ASSISTANCE IS FORTH-COMING, GOP HAS ONLY TWO ALTERNATIVES, BOTH OF WHICH COULD LEAD TO POLITICAL AND ECONOMIC COLLAPSE. GOP COULD EITHER ADOPT EXTREMELY RESTRICTIVE AUSTERITY MEASURES WHICH WOULD IMMEDIATELY INCREASE UNEMPLOYMENT SUBSTANTIALY OR DEFAULT ON PAYMENTS WHICH WOULD RUIN CREDIT STANDING AND MAKE LONGER TERM PROSPECTS BLEAK.

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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 5177

LIMDIS

PASS TREASURY FOR SYVRUD

8. COMMENT: GOP CONTINUES TO TAKE RATIONAL ECONOMIC MEASURES AND HAS CLEARLY STATED INTENTION TO INSTITUTE ADDITIONAL ONES. THEY ARE ALSO SELLING AS MUCH GOLD AS THEY CAN. THIS PROBLEM SHOULD BE VIEWED IN THE CONTEXT OF THE REQUEST TO VICE PRESIDENT MONDALE DURING HIS MAY TRIP ALTHOUGH AT THAT TIME NO ONE FORE- SAW THE GRAVITY OF THE SITUATION. WHAT IS DOUBLY UNFORTUNATE IS THAT THIS SEVERE LIQUIDITY PROBLEM COMES AT A TIME WHEN THE ECONOMY IS SHOWING THE FIRST SIGNS OF RECUPERATION AND JUST AFTER THE GOP HAS RECEIVED A STRONG, PUBLIC VOTE OF CONFIDENCE FROM OECD COUNTRIES.

9. THERE IS NO QUESTION IN MY JUDGEMENT, THAT PORTUGAL'S FUTURE DEMOCRATIC DEVELOPMENT WOULD BE SERIOUSLY JEOPARDIZED IF IT HAS TO TAKE THE EXTREME MEASURES OUTLINED IN PARA 7. I THEREFORE URGE AS STRONGLY AS POSSIBLE THAT THE DEPARTMENT MAKE EVERY EFFORT TO DEVELOP MEASURES TO HELP THE GOP THROUGH

THIS GRAVE PERIOD. THE GOP NEEDS AT BEST A PRELIMINARY READING
ON POSSIBLE ASSISTANCE BY FRIDAY AFTERNOON JULY 8 BEFORE MEETING
WITH PRESIDENT.

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